INDIANA DEVELOPMENT FINANCE AUTHORITY

FINANCIAL STATEMENTS

June 30, 2002

INDIANA DEVELOPMENT FINANCE AUTHORITY
Indianapolis, Indiana

FINANCIAL STATEMENTS
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REPORT OF INDEPENDENT AUDITORS ON FINANCIAL STATEMENTS

Indiana Development Finance Authority
State of Indiana

We have audited the governmental fund balance sheet / statement of net assets of Indiana Development Finance Authority (Authority), as of June 30, 2002, and the related statement of governmental fund revenues, expenses and changes in fund balances / statement of activities for the year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the *Guidelines for Audits of State and Local Governments by Authorized Independent Public Accountants*, issued by the Indiana State Board of Accounts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority, as of June 30, 2002, and the results of their operations and changes in net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and the other required supplementary information on pages 3 through 5 and 23 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the financial statements of the Authority taken as a whole. The supplemental schedules of special revenue fund balance sheets and special revenue fund revenues, expenses, and changes in fund balances are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Crowe, Chizek and Company LLP

Crowe, Chizek and Company LLP

Indianapolis, Indiana
November 22, 2002

This section of the Indiana Development Finance Authority (Authority) financial report provides a discussion and analysis of the financial performance during the year ended June 30, 2002. Please read it in conjunction with the Report of Independent Auditors at the front of this report and the financial statements, which immediately follow this section.

Financial Highlights

The Authority's total net assets increased by $14,299,291, or 47.2%, for the year ended June 30, 2002. This increase is attributable to several factors, including: funding of a new brownfields initiative, receipt of state funds for the 21st Century Research and Technology Fund, and additional appropriations to the Industrial Development Project Guaranty Fund (the "Guaranty Fund") related to certain reimbursement obligations. In the year ended June 30, 2002, the Authority also recognized an approximate 3.5% decrease in expenses from the previous year.

As a result of the bankruptcy of Qualitech and Heartland Steel (described in Note 7), the Authority continues to work with the State to see that debt service on the related bonds is paid.

Overview of the Financial Statements

The public purposes of the Authority are to:

- Promote opportunities for gainful employment and business opportunities by the promotion and development of industrial development projects, rural development projects, mining operations, international exports and agricultural operations;
- Promote educational enrichment (including cultural, intellectual, scientific or artistic opportunities) by the promotion and development of educational facility projects;
- Promote affordable farm credit and agricultural loan financing for farming and agricultural enterprises;
- Prevent and remediate environmental pollution by the promotion and development of industrial development projects; and
- Promote affordable childcare financing.

The Governmental Fund Balance Sheet / Statement of Net Assets is the first financial statement included in this report. It represents the financial condition of the Indiana Development Finance Authority on the last day of the reporting year. The Statements of Governmental Funds Revenues, Expenses and Changes Fund Balances / Statement of Activities, reflects the activities of the Indiana Development Finance Authority from the first day of the reporting year through the last. This statement reflects what revenues were generated through the year and what expenses were required to generate those revenues.

The accompanying notes to financial statements explain some of the information in the financial statements and provide more detailed data.

Financial Analysis of the Indiana Development Finance Authority

Net Assets

The net assets of the Indiana Development Finance Authority were $44,581,759 at June 30, 2002, which represents a 47.2% increase from the prior year. Total assets increased by $14,302,284, while total liabilities increased by $2,993.

	2002	2001
Assets	$ 45,547,239	$ 31,244,955
Liabilities	965,480	962,487
Net Assets	$ 44,581,759	$ 30,282,468

Change in Net Assets

The increase in net assets was $14,299,291 for the year ended June 30, 2002 as compared to a decrease of net assets of $488,797 for the prior year. Revenue increased by $13,850,096, which represents a 52.8% change from the prior year. Expenses decreased by $937,992, which represents a 3.5% change from the prior year.

	2002	2001
Revenues	$ 40,076,219	$ 26,226,123
Expenses	25,776,928	26,714,920
Change in net assets	14,299,291	(488,797)

There are three primary reasons for changes from the prior year to the current year:

- The new Petroleum Remediation Grant Fund Program had appropriation revenue of $4,500,000 with no expenses recorded for the current year.

- The Indiana 21st Century Research and Technology Fund Program received state funding for grant awards in excess of those awards disbursed by year-end. The fund has $5,596,202 restricted for grant awards and administration.

- The Guaranty Fund received additional appropriations to pay debt service on the Heartland Steel bonds (see Note 7). Appropriations received for the year ended June 30, 2002 were $3,462,500, while appropriations for the year ended June 30, 2001 were $1,918,750. Debt service recorded for the year ended June 30, 2002 was $2,395,039, while debt service for the year ended June 30, 2001 was $4,031,122.

Analysis of Infrastructure Assets

The Indiana Development Finance Authority does not own infrastructure assets.

Capital and Debt Administration

The Authority does not own assets that meet the capitalization requirements and is not legally obligated to pay any outstanding short term or long-term debt at June 30, 2002 (see Note 7).

Economic Factors

A majority of the Authority's funding comes from State of Indiana appropriations to perform and administer State-authorized programs. Appropriations are made on a biennial basis. Other funding includes fees received in connection with program administration and management, as well as investment earnings.

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INDIANA DEVELOPMENT FINANCE AUTHORITY
GOVERNMENTAL FUNDS BALANCE SHEET/STATEMENT OF NET ASSETS
June 30, 2002

	Governmental Fund Types				
	General Fund	Special Revenue Funds	Total	Adjustments (Note 1)	Statement of Net Assets
Assets					
Current assets					
Cash and cash equivalents (Note 2)	$ 817,567	$ 15,511,422	$ 16,328,989	$ -	$ 16,328,989
CAP cash accounts (Note 3)	-	672,869	672,869	-	672,869
Investments (Note 2)	-	22,391,268	22,391,268	-	22,391,268
Accrued interest receivable	276	278,638	278,914	-	278,914
Accounts receivable	58,852	-	58,852	-	58,852
Loans receivable, net (Notes 5,8 and 9)	-	5,816,347	5,816,347	-	5,816,347
Interfund loan receivable (Note 4)	27,960	296,779	324,739	(324,739)	-
Total current assets	904,655	44,967,323	45,871,978	(324,739)	45,547,239
Liabilities					
Current liabilities					
Accounts payable and accrued expenses	$ 65,480	$ -	$ 65,480	-	65,480
Interfund loan payable (Note 4)	296,779	27,960	324,739	(324,739)	-
Allowance for guaranty claims (Note 6)	-	900,000	900,000	-	900,000
Total current liabilities	362,259	927,960	1,290,219	(324,739)	965,480
Fund balances/Net assets					
Fund balances:					
Reserved (Note 11)	-	11,162,747	11,162,747		
Unreserved	542,396	32,876,616	33,419,012		
Total fund balance	542,396	44,039,363	44,581,759		
Total liabilities and fund balances	$ 904,655	$ 44,967,323	$ 45,871,978		
Net assets:					
Unrestricted					$44,581,759

See accompanying notes to financial statements.

INDIANA DEVELOPMENT FINANCE AUTHORITY
STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENSES AND
CHANGES IN FUND BALANCES/STATEMENT OF ACTIVITIES
Year ended June 30, 2002

	General	Special Revenue	Total	Adjustments (Note 1)	Statement of Activities
Government activity revenues					
State appropriations	$ -	$ 12,748,750	$ 12,748,750	$ -	$ 12,748,750
Other state funding	-	25,318,681	25,318,681	-	25,318,681
Investment earnings	8,784	1,516,537	1,525,321	-	1,525,321
Realized and unrealized gains on investments	-	245,792	245,792	-	245,792
Financing fees and premiums (Note 12)	154,300	30,264	184,564	-	184,564
Other fee income	22,680	-	22,680	-	22,680
Rental income (Note 13)	30,431	-	30,431	-	30,431
Total revenues	216,195	39,860,024	40,076,219	-	40,076,219
Government activity expenses					
Salary and benefits	491,653	141,559	633,212	-	633,212
Professional services	151,375	-	151,375	-	151,375
Administrative expenses	114,449	429,926	544,375	-	544,375
Office Rent	92,966	20,359	113,505	-	113,505
Bank and trustee fees	1,513	33,536	35,049	-	35,049
Provision for loan forgiveness (Notes 8 and 9)	-	617,000	617,000	-	617,000
Reimbursement agreement loss (Note 7)	-	2,395,039	2,395,039	-	2,395,039
Grant awards	-	20,448,362	20,448,362	-	20,448,362
CAP claims (Note 3)	-	839,011	839,011	-	839,011
Total expenses	851,956	24,924,972	25,776,928	-	25,776,928
Excess (deficiency) of revenues over expenses	(635,761)	14,935,052	14,299,291	-	14,299,291
Other financing sources (uses)					
Transfers – internal activities	777,132	(777,132)	-	-	-
Excess of revenues and sources over expenses and uses	141,371	14,157,920	14,299,291	-	14,299,291
Fund balances/net assets:					
Beginning of year	401,025	29,881,443	30,282,468	-	30,282,468
End of year	$ 542,396	$ 44,039,363	$ 44,581,759	$ -	$ 44,581,759

See accompanying notes to financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity: The Indiana Development Finance Authority (the Authority) was established by the Indiana General Assembly, in 1990, as a body, both corporate and politic, to independently exercise essential public functions. The public purposes of the Authority are to: (a) promote opportunities for gainful employment and business opportunities by the promotion and development of industrial development projects, rural development projects, mining operations, international exports and agricultural operations; (b) promote educational enrichment (including cultural, intellectual, scientific or artistic opportunities) by the promotion and development of educational facility projects; (c) promote affordable farm credit and agricultural loan financing for farming and agricultural enterprises; (d) prevent and remediate environmental pollution by the promotion and development of industrial development projects; and (e) promote affordable childcare financing. The accompanying financial statements report only on the financial activities associated with the Authority, which is a component unit of the State of Indiana. The financial statements do not represent a comprehensive annual financial report of the State of Indiana.

Government-wide and Fund Financial Statements: The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting.* Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues available if they are collected within thirty-one days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

The Authority uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The Authority only uses governmental funds. Government funds are those through which most governmental functions typically are financed. Governmental funds reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance.

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reconciliation of Governmental Fund Balance Sheet / Statement of Net Assets: In addition to elimination of interfund balances, the following items reflect adjustments to fund balances to derive net asset balances:

Governmental funds balance	$ 44,581,759
Eliminate interfund loan receivable	(324,739)
Eliminate interfund loan payable	324,739
Net Assets	$ 44,581,759

Fund Accounting: The accounts of the Authority are organized based on funds. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, expenditures, and operating transfers, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are summarized by type for financial reporting purposes as governmental funds as follows:

General Fund: The General Fund is used to account for all activities of the Authority not required to be accounted for in another fund. Examples of activities accounted for in the General Fund include the State Private Activity Bond Ceiling Program, various bond issue and refunding programs, and operational budgets.

Special Revenue Funds: Special revenue funds are used to account for specific revenues that are legally restricted to expenditures for a specified purpose. The Authority's Special Revenue Funds include the following:

The **Capital Access Program (CAP) Fund** enables banks to make loans to Indiana businesses that may not meet traditional lending requirements. The foundation of CAP is the establishment of a reserve fund into which the borrower, bank, and the Authority contribute. When a CAP loan is made, the borrower and the bank each deposit a small percentage of the loan (1.5% - 3.5%) into the bank's reserve fund, and the Authority matches the combined payment. The reserve fund is available for the bank to use to cover losses of any loans made by it under the CAP program. Claims made during the year totaled $839,011.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The **Industrial Development Project Guaranty Fund (Guaranty Fund)** provides flexible loan guaranties to banks for various economic development projects. Indiana businesses that are unable to qualify for conventional financing can utilize the Authority's loan guaranty programs for high tech, industrial, rural and agriculture development projects. The loan guaranty program offers guaranties from 75% to 90% of the principal deficiency on a loan of up to $2,000,000 for industrial development projects. At June 30, 2002, the Authority had outstanding guaranties aggregating $2,254,967 and no outstanding guaranty commitments.

The **Business Development Loan Fund** is used for activities relating to the Business Development Loan Program. The primary purpose of the Business Development Loan Fund is to grant loans to qualified borrowers so that they may carry out an industrial development project consistent with the requirements of the related statute (4-4-11-16.5). As of June 30, 2002, there were no loan commitments outstanding.

The **Rural and Agricultural Development Fund** is used for activities relating to the Rural and Agricultural Program. The Fund's primary purpose is to create or retain employment within the State of Indiana to benefit any agriculture enterprise or rural development project. The loan guaranty program offers guaranties from 75% to 90% of the principal deficiency on a loan of up to $300,000 for rural and agriculture projects. At June 30, 2002, the Authority had outstanding guaranties aggregating $293,880 and no outstanding guaranty or loan commitments.

The **Underground Storage Tank Fund** is used to account for the activities of the Underground Storage Tank (UST) Program, which assists low-income underground storage tank owners with the Environmental Protection Agency's 1998 upgrade/closure requirements. Grant expenses recognized during the year ended June 30, 2002 were $54,559. There were no grants, outstanding loans, or loan commitments at June 30, 2002.

The **Environmental Remediation Revolving Loan Fund** was created in 1997 by the General Assembly to facilitate economic development and environmental remediation for inactive or abandoned industrial or commercial property in which redevelopment is difficult due to environmental issues. The Authority administers the State's Brownfield Grant and Loan Program. There was $63,108 in grant commitments and $1,262,800 outstanding loan commitments at June 30, 2002.

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The **Indiana 21st Century Research and Technology Fund** was established by the State in 1999 to support the expansion of the high technology sector of Indiana's economy, with the expectation of creating significant economic impact and job growth. The Fund provides grant awards to Indiana businesses, institutions of higher educations and other organizations to compete for research and development funding; to stimulate the transfer of research and technology into marketable products; to diversify Indiana's economy through effective public/private partnerships. The State Budget Agency and the Fund's Board review grant submissions recommended by peer review panels and approve grant disbursements under the program. The Authority administers the program and submits grantee claims to the State Budget Agency for draws.

The **Petroleum Remediation Grant Initiative Fund** is a new component of the Environmental Remediation Revolving Loan Fund that provides assistance to cities, towns, and counties in Indiana to complete remediation of petroleum contamination at Brownfield sites. The Authority administers the program in cooperation with the Indiana Department of Environmental Management. There were no grant commitments outstanding at June 30, 2002.

<u>Use of Estimates in Preparation of Financial Statements</u>: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from these estimates. Significant estimates include allowances for loans, guaranty and CAP claims and related commitments.

(Continued)

NOTE 2 – CASH AND INVESTMENTS

The Authority maintains separate demand deposit or trust accounts for each fund. At June 30, 2002, the Authority's demand deposit account balances were $1,400,020 and the bank balances were $286,196. Trust account cash and money market accounts were $14,928,969 at June 30, 2002. Investments made by the Authority are reported at market value and are summarized below:

	Carrying Value	Market Value
Repurchase agreements	$ 5,596,202	$ 5,596,202
Government and agency obligations	16,434,501	16,691,786
Corporate Notes and other investments	100,000	103,280
	$ 22,130,703	$ 22,391,268

Indiana statute authorizes the Authority to invest in obligations of the United States Treasury and U.S. agencies, repurchase agreements and other approved investment vehicles. Repurchase agreements are required to be fully collateralized by interest bearing obligations, as determined by the current market value computed on the day the agreement is effective. All investments are uninsured and unregistered (category 2), with securities held by bank trust departments in the Authority's name.

NOTE 3 – CAPITAL ACCESS PROGRAM (CAP) CASH

At June 30, 2002, CAP cash account balances held in participating banks in the Authority's name aggregated to a net amount of $672,869. The balances include the Authority's matching payments on the aggregate of the borrowers' and banks' payments of $5,030,316 offset by an allowance of $4,357,447 recorded for CAP claims based on aggregate borrower and lender contributions to the CAP program. All CAP cash accounts held by participating banks are pledged as security on CAP loans outstanding of approximately $50,200,000 at June 30, 2002. Since inception of the program, CAP has originated approximately $125,500,000 of loans.

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NOTE 4 – INTERFUND LOANS RECEIVABLE AND PAYABLE

Funds are transferred from one fund to support expenditures of other funds in accordance with authority established for the individual fund. To the extent that certain transactions between funds have not been paid or received, interfund receivable and payable balances have been recorded at June 30, 2002.

	Interfund Receivable	Interfund Payable
General Fund	$ 27,960	$ 296,779
Guaranty Fund	296,779	-
Indiana 21st Century Research and Technology Fund	-	27,960
	$ 324,739	$ 324,739

NOTE 5 – LOANS RECEIVABLE – GUARANTY FUND

Loans receivable under the Guaranty Fund were comprised of the following at June 30, 2002:

In June 1997, the Authority advanced $450,000 under a promissory note to a company within Indiana. The note is payable in monthly installments of $5,225, including interest at 7%, from June 1997 to July 2007. The note is secured by substantially all property, equipment, and inventory of the borrower.	$ 272,149
In June 1997, the Authority advanced $1,000,000 under a promissory note to a company within Indiana for equipment purchases and permanent working capital. The note is payable in monthly installments of $12,485, including interest at 7%, from June 1997 to August 2007. The note is secured by substantially all property and equipment, inventory and personal guaranties of the borrower.	677,502
	$ 949,651

Interest earned on these loans during the year ended June 30, 2002 was $90,266.

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NOTE 6 - ALLOWANCE FOR CLAIMS - GUARANTY FUND

The Guaranty Fund was established by the Indiana General Assembly primarily for the purpose of guaranteeing various percentages of loans, bonds, letters of credit, and equipment leases used by qualified lenders. Periodically, the Indiana General Assembly appropriates funds to the Guaranty Fund. Available funds may be increased or decreased by the income and expenses attributable to the Authority's Guaranty Program, including payments required upon guaranteed loan defaults.

Guaranties are not backed by the full faith and credit of the State of Indiana. Payments of guaranty claims can be made only from the Guaranty Fund. Currently, for the Guaranty Program, the Authority is authorized to extend guaranties aggregating eight times the amount of the Guaranty Fund balance. At June 30, 2002, the Authority had outstanding loan guaranties aggregating $2,548,847 and no outstanding loan guaranty commitments.

The Authority has also entered into certain agreements, which include a requirement that under certain circumstances the Authority either use existing guaranty funds or seek appropriations from the Indiana General Assembly. In addition to projects described in Note 7, on May 25, 1995, the Authority issued $21,400,000 aggregate principal amount of its Taxable Economic Development Revenue Bonds, Series 1995 (Steel Dynamics, Inc. Project), secured in part by a debt service reserve fund established exclusively for the Steel Dynamics bonds. As of June 30, 2002, a principal amount of $16,500,000 of the Steel Dynamics bonds remains outstanding. After the close of the Authority's fiscal year, Steel Dynamics effectively refinanced its bonds by converting into a bank loan under which the Authority remains obligated to use guaranty funds or seek appropriations under certain circumstances.

The Allowance for Guaranty Claims is recorded in the Special Revenue Fund (Guaranty Fund) and represents amounts that management estimates to be adequate to provide for future claims resulting from borrower defaults on loans, bonds or equipment leases guaranteed by the Authority pursuant to its Guaranty Program. In arriving at a judgment about the adequacy of the allowances, consideration has been given to problem guaranties, historical losses, economic conditions, and other factors affecting the outstanding guaranties.

NOTE 7 – REIMBURSEMENT AGREEMENT LOSS – GUARANTY FUND

Qualitech Steel – The Authority is a party to an Amended and Restated Reimbursement Agreement with Qualitech Steel Corporation, a Debtor-in-Possession by virtue of its filing a petition for relief under Chapter 11 of the United States Bankruptcy Code, in a case pending in the United States Bankruptcy Court for the Southern District of Indiana ("Qualitech"), and Bank One, Indiana, NA ("Bank"), relating to Indiana Development Finance Authority Taxable Variable Rate Demand Economic Development Revenue Bonds, Series 1996 (Qualitech Steel Corporation Project) ("Bonds").

(Continued)

NOTE 7 – REIMBURSEMENT AGREEMENT LOSS – GUARANTY FUND (Continued)

The Bank issued an irrevocable direct-pay letter of credit to further secure the Bonds. Such letter of credit replaced a letter of credit issued by another bank upon original issuance of the Bonds. As a result of Qualitech's payment default with respect to the Bonds, the Authority agreed with the Bank to use money lawfully available to the Authority, including money appropriated by the Indiana General Assembly, to make bond and related payments. As a result, the Bank agreed not to declare a default under the Amended and Restated Reimbursement Agreement, so that the Bonds remain outstanding.

If a default were declared, the Authority could be obligated to pay the principal of and interest on the Bonds**.** This would result in recognition of losses in future years. The amount of this contingency is the outstanding principal amount of the Bonds, $27,500,000 as of June 30, 2002. Current debt service reserve funds of $3,667,000 would be available to reduce the contingent obligation.

During the fiscal year ending June 30, 2002, the Authority recorded expenses for bond and related payments of $1,698,578 for Qualitech. For the 2001-2003 biennial budget, the Indiana General Assembly appropriated $8,350,000 for Qualitech bond and related payments, negating the need to access any other Authority funds in either FY 2002 or FY 2003.

Heartland Steel - The Authority is a party to an Amended and Restated Reimbursement Agreement with Heartland Steel, Inc., a Debtor-in-Possession by virtue of its filing a petition for relief under Chapter 11 of the United States Bankruptcy Code, in a case pending in the United States Bankruptcy Court for the Southern District of Indiana, and Bank One, Indiana, NA ("Bank"), relating to Indiana Development Finance Authority Taxable Variable Rate Demand Economic Development Revenue Bonds, Series 1998 (Heartland Steel, Inc. Project) ("Bonds").

The Bank issued an irrevocable direct-pay letter of credit to further secure the Bonds. As a result of Heartland's payment default with respect to the Bonds, the Authority agreed with the Bank to use money lawfully available to the Authority, including money appropriated by the Indiana General Assembly, to make bond and related payments. As a result, the Bank agreed not to declare a default under the Amended and Restated Reimbursement Agreement, so that the Bonds remain outstanding.

If a default were declared, the Authority could be obligated to pay the principal of and interest on the Bonds. This would result in recognition of losses in future years. The amount of this contingency is the outstanding principal amount of the Bonds, $11,900,000, as of June 30, 2002. Current debt service reserve funds of $2,241,750 would be available to reduce the contingent obligation.

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NOTE 7 – REIMBURSEMENT AGREEMENT LOSS – GUARANTY FUND (Continued)

During the fiscal year ending June 30, 2002, the Authority recorded expenses for bond and related payments of $696,461. In the 2001-2003 biennial budget, the Indiana General Assembly appropriated $1,000,000 for Heartland bond and related payments. However, bond and related payments for Heartland for the biennium are estimated at $3,500,000, and will require the Authority to use guaranty funds.

NOTE 8 – LOANS RECEIVABLE – ENVIRONMENTAL REMEDIATION REVOLVING LOAN FUND (BROWNFIELDS)

Loans receivable in the Environmental Remediation Revolving Loan Fund were comprised of the following at June 30, 2002:

City of Fort Wayne	$ 343,678
Town of Pierceton	61,937
Town of Kewanna	40,165
City of Madison	240,000
Hendricks County	767,000
City of Rushville	77,734
City of South Bend	1,300,000
City of Mishawaka	1,248,000
City of New Albany	350,000
City of Indianapolis – BDG	175,000
City of Indianapolis – Titan	60,000
	4,663,514
Less allowance for forgivable portion of Brownfield loans	(637,000)
	$ 4,026,514

The Brownfield program includes a partially forgivable loan program, with certain eligibility requirements. Eligible participants have a provision for forgiveness of up to 20% of the original loan balance if certain performance criteria are met. The Authority has recorded an allowance of $637,000, which represents the current amount available for forgiveness on loans that qualified under the program.

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NOTE 9 – LOANS RECEIVABLE – BUSINESS DEVELOPMENT LOAN FUND

Loans receivable under the Business Development Loan Fund were comprised of the following at June 30, 2002:

In July 2000, the Authority advanced $1,500,000 under a promissory note to a company within Indiana. The Indiana Department of Commerce funded $1,000,000 through an appropriation to the Authority. A provision of the note allows $1,000,000 to be forgiven if certain performance criteria are met. Achievement of performance criteria will be measured at December 31, 2002. The net loan receivable at June 30, 2002 is $373,773. The Authority has recorded an allowance of $1,000,000, which represents the full amount available for forgiveness on the loan. The non-forgivable portion of the note is payable in quarterly installments of $21,274, including interest at 5.00%, from October 2000 to July 2007. The note is secured by certain assets of the borrower.	$ 1,373,773
In July 2001, the Authority advanced $1,000,000 under a promissory note to a company within Indiana. A provision of the note allows $500,000 to be forgiven if certain performance criteria are met. Achievement of performance criteria will be measured at December 31, 2002. The Authority has recorded an allowance of $500,000. The non-forgivable portion of the loan is payable in quarterly installments of $14,485, including interest at 3% from October 2001 to July 2011. The note is secured by certain assets of the borrower.	966,309
	2,340,182
Less allowance for forgivable portion of loans	(1,500,000)
	$ 840,182

The program includes a partially forgivable loan program, with certain eligibility requirements. Eligible participants have a provision for forgiveness of portions of the loan if certain performance criteria are met. The Authority has recorded an allowance of $1,500,000, which represents the current amount available for forgiveness on loans that qualified but have not met the performance criteria under the program.

NOTE 10 – OTHER CONDUIT DEBT OBLIGATIONS

The Authority is permitted by law to issue conduit and certain other types of revenue bonds to finance projects that serve Indiana public purposes outlined by statute. Except as described in Notes 6 and 7, the Authority's revenue bonds are payable solely from revenues of the Authority specifically pledged thereto. The bonds are not in any respect a general obligation of the Authority or the State of Indiana, nor are they payable in any manner from revenues raised by taxation. The Authority has no power to levy taxes. Pursuant to this authority, the Authority has issued numerous revenue bonds.

NOTE 11 – RESERVED FUND EQUITY

The Authority has reserved fund equity in four special revenue funds for specific purposes as stated in appropriations from the Indiana General Assembly or as designated by the Authority's governing body:

> The CAP Fund has a reserve of $1,439,453 for childcare facility loans as reserved by state appropriations for the biennial appropriation and $672,869, for the CAP Cash Program
>
> The Guaranty Fund has a reserve of $958,700 for child care facility debt service reserves as reserved by state appropriations for the biennial appropriation and $1,197,575 reserved by the Authority to pay amounts due under a Reimbursement Agreement.
>
> The 21st Century Research and Technology Fund has a reserve of $5,568,242 for costs of administering the program and providing grant awards to successful grant applicants.
>
> The Environmental Remediation Revolving Loan Fund has a reserve of $1,325,908 for current loan and grant commitments as reserved by the Authority.

NOTE 12 – FINANCING FEES AND PREMIUMS

The Authority may assess a fee or charge a premium on loan guaranties and bond issuances. The following represent amounts recorded for the year ended June 30, 2002:

Guaranty Fund:	
Guaranty premiums and fees	$ 30,264
General Fund:	
Bond registration fees	$ 90,800
Bond application fees	63,500
	$ 154,300

NOTE 13 – RENT COMMITMENTS

The Authority leases office space pursuant to a non-cancelable operating lease expiring in May 2006. The future minimum rental payments required at June 30, 2002 are $434,508. A summary of the total minimum lease payments for the lease is as follows:

2003	$ 113,350
2004	113,350
2005	113,350
2006	94,458
	$ 434,508

Rental expense for the operating lease was $113,500 for the year ended June 30, 2002. The Authority subleases space to the Indiana Transportation Finance Authority, the 21st Century Research and Technology Fund, and the Public Finance Office that resulted in rental income of $30,431 for the year ended June 30, 2002. The Indiana 21st Century Research & Technology Fund was allocated $20,539 of the rent expense with the general fund recording the remainder.

NOTE 14 – AGENCY ACCOUNT - MARKET INDIANA

Market Indiana is a public-private partnership designed to support economic development in the State of Indiana. Through Market Indiana, Indiana companies can participate with the Indiana Department of Commerce in various marketing programs to promote economic development in Indiana. The Authority performs certain accounting functions for Market Indiana on behalf of the Indiana Department of Commerce. The assets, fund balance, and results of operations are not included in the financial statements of the Authority. Summarized financial information as of June 30, 2002 and for the year then ended is as follows:

Total assets	$ 329,576
Fund balance	$ 329,576
Total revenues	$ 148,959
Total expenditures	(122,247)
Excess of revenue over expenditures	$ 26,712

NOTE 15 - SHORT TERM OBLIGATIONS

Accrued expenses are recognized for expenses incurred but not paid at June 30, 2002. The following schedule shows the changes in short term obligations during the year:

	Balance July 1, 2001	Additions	Deletions	Balance June 30, 2002
Accounts payable and accrued expenses	$ 62,487	$ 996,508	$ (993,515)	$ 65,480

SUPPLEMENTARY SCHEDULES

INDIANA DEVELOPMENT FINANCE AUTHORITY
SCHEDULE OF SPECIAL REVENUE FUND BALANCE SHEETS
June 30, 2002

	Capital Access Program Fund	Guaranty Fund	Business Development Loan Fund	Rural and Agricultural Development Fund	Underground Storage Tank Fund	Environmental Remediation Revolving Loan Fund	Indiana 21st Century Research and Technology Fund	Petroleum Remediation Grant Fund	Total
Assets									
Cash and cash equivalents	$ 1,747,152	$ 1,994,549	$ 1,572,319	$ 235,169	$ -	$ 5,419,065	$ -	$ 4,543,168	$ 15,511,422
CAP cash accounts	672,869	-	-	-	-	-	-	-	672,869
Investments	3,630,108	3,879,968	2,621,502	1,123,594	-	5,539,894	5,596,202	-	22,391,268
Accrued interest receivable	39,216	85,680	29,470	19,884	-	97,380	-	7,008	278,638
Loans receivable, net	-	949,651	840,182	-	-	4,026,514	-	-	5,816,347
Interfund loan receivable	-	296,779	-	-	-	-	-	-	296,779
	$ 6,089,345	$ 7,206,627	$ 5,063,473	$ 1,378,647	$ -	$15,082,853	$ 5,596,202	$ 4,550,176	$ 44,967,323
Liabilities									
Interfund loan payable	$ -	$ -	$ -	$ -	$ -	$ -	$ 27,960	-	$ 27,960
Allowance for guaranty claims	-	900,000	-	-	-	-	-	-	900,000
Total liabilities	-	900,000	-	-	-	-	27,960	-	927,960
Fund balances									
Reserved	2,112,322	2,156,275	-	-	-	1,325,908	5,568,242	-	11,162,747
Unreserved	3,614,601	4,150,352	5,063,473	1,378,647	-	13,756,945	-	4,550,176	32,876,616
Total fund equity	6,089,345	6,306,627	5,063,473	1,378,647	-	15,082,853	5,568,242	4,550,176	44,039,363
	$ 6,089,345	$ 7,206,627	$ 5,063,473	$ 1,378,647	$ -	$15,082,853	$ 5,596,202	$ 4,550,176	$ 44,967,323

INDIANA DEVELOPMENT FINANCE AUTHORITY
SCHEDULE OF SPECIAL REVENUE FUND REVENUES, EXPENSES
AND CHANGES IN FUND BALANCES
Year ended June 30, 2002

	Capital Access Program Fund	Guaranty Fund	Business Development Loan Fund	Rural and Agricultural Development Fund	Underground Storage Tank Fund	Environmental Remediation Revolving Loan Fund	Indiana 21st Century Research and Technology Fund	Petroleum Remediation Grant Fund	Total
Governmental activity revenues									
State Appropriations	$ 1,627,500	$ 3,462,500	$ 833,750	$ -	$ -	$ 2,325,000	$ -	$ 4,500,000	$ 12,748,750
Other state funding	-	-	-	-	-	-	25,318,681	-	25,318,681
Investments earnings	211,513	344,249	187,222	60,785	-	586,244	73,642	52,882	1,516,537
Realized and unrealized gains	20,270	154,995	27,332	21,647	-	21,548	-	-	245,792
Financing fees and premiums	-	30,264	-	-	-	-	-	-	30,264
Total revenues	$ 1,859,283	$ 3,992,008	$ 1,048,304	$ 82,432	$ -	$ 2,932,792	$25,392,323	$ 4,552,882	$ 39,860,024
Governmental activity expenses									
Salaries and benefits	$ -	$ -	$ -	$ -	$ -	$ -	$ 141,559	-	$ 141,559
Administrative expenses	-	70,399	-	-		2,070	357,457	-	429,926
Office rent	-	-	-	-		-	20,539	-	20,539
Bank and trustee fees	6,583	4,843	4,416	1,630	12	11,997	1,349	2,706	33,536
Allowance for forgivable loans	-	-	500,000	-	-	117,000	-	-	617,000
Reimbursement agreement loss	-	2,395,039	-	-	-	-	-	-	2,395,039
Grant awards	-	-	-	-	54,547	456,980	19,936,835	-	20,448,362
CAP claims	839,011	-	-	-	-	-	-	-	839,011
Total expenses	845,594	2,470,281	504,416	1,630	54,559	588,047	20,457,739	2,706	24,924,972
Excess (deficiency) of revenues over expenses	1,013,689	1,521,727	543,888	80,802	(54,559)	2,344,745	4,934,584	4,550,176	14,935,052
Other financing sources and uses									
Transfers – internal activities	(220,755)	(238,566)	(13,450)	(43,904)	-	(260,457)	-	-	(777,132)
Excess (deficiency) of revenues and sources over expenses and uses	792,934	1,283,161	530,438	36,898	(54,559)	2,084,288	4,934,584	4,550,176	14,157,920
Fund balances									
Beginning of year	5,296,411	5,023,466	4,533,035	1,341,749	54,559	12,998,565	633,658	-	29,881,443
End of year	$ 6,089,345	$ 6,306,627	$ 5,063,473	$ 1,378,647	$ -	$ 15,082,853	$ 5,568,242	$ 4,550,176	$ 44,039,363

General Fund Expenses:

	Actual Expenses	Budgeted Expenses	Variance (Over) Under
Salaries and benefits (Note 1 and 2)	$ 491,653	$ 824,220	$ 332,567
Professional services	151,375	140,440	(10,935)
Administrative expenses	114,449	159,570	45,121
Office rent (Note 3)	92,966	113,350	20,384
Bank and trustee fees	1,513	-	(1,513)
Total expenses	$ 851,956	$ 1,237,580	$ 385,624

Note 1: Budgeted expenses for salaries and benefits includes $204,531 for staff directly assigned to the Indiana 21st Century Research and Technology Fund, which has a separately approved budget.

Note 2: Budgeted expenses for salaries and benefits included the full cost of staff that in some cases perform functions for other governmental entities for which the Authority receives appropriate reimbursement.

Note 3: Budgeted expenses for rent included the full cost of rental office space. The Authority provides space to other governmental entities for which the Authority receives reimbursement.

Indiana 21st Century Research and Technology Fund Expenses:

	Actual Expenses	Budgeted Expenses	Variance (Over) Under
Salaries and benefits (Note 1)	$ 141,559	$ 204,531	$ 62,972
Administrative expenses (Note 2)	357,457	465,431	107,974
Office rent	20,539	24,106	3,567
Bank and trustee fees	1,349	-	(1,349)
Grant awards (Note 3)	19,936,835	-	(19,936,835)
Total expenses	$ 20,457,739	$ 694,068	$(19,763,671)

Note 1: Actual expenses were less than budget since not all budgeted staff positions were filled throughout the fiscal year.

Note 2: Administrative expenses were less than budget primarily as a result of changes in staff and deferral of new grant reviews.

Note 3: The budget for the Indiana 21st Century Research and Technology Fund is only for operating expenses associated with the grant award process. Grant awards are recommended and approved periodically.